

Governor's Budget Buys *Smarter*

"The key goal is to look at new ways for the state to create savings without cutting critical programs."

Governor Gary Locke
December 16, 2004

To find out more about Strategic Sourcing contact...

Rob Fukai, Director,
Department of General
Administration
Phone: (360) 902-7202
Email: rfukai@ga.wa.gov

Marty Brown, Director,
Office of Financial Management
Phone: (360) 902-0530
Email: marty.brown@ofm.wa.gov

Mike McVicker, Director,
Department of Information
Services
Phone: (360) 902-3129
Email: mikem@dis.wa.gov

Larry Weber, Director,
Department of Printing
Phone: (360) 570-5555
Email: larryw@prt.wa.gov

THE GOVERNOR'S BUDGET includes a savings target of \$50 million from strategic sourcing efforts in the next biennium. Half of the savings must benefit the state's general fund. The state annually spends about \$4 billion on a variety of goods and services.

"The key goal is to look at new ways for the state to create savings without cutting critical programs," the governor noted in his budget.

The critical role of state agencies

The governor directed the Office of Financial Management (OFM) and General Administration (GA) to work with the appropriate state agencies to identify specific savings areas in time for the 2006 supplemental operating budget and generate the savings in 2007.

Strategic sourcing should also assist the state in saving \$100 million in drug ingredient supplemental rebates, reduce leasing costs and help trim medical cost inflation, according to the governor's budget staff.

The governor also directed GA, in consultation with the Department of Information Services (DIS) and OFM to conduct an analysis of state purchasing processes to come up with a reasonable strategy for the savings – without affecting direct program activities within state agencies, colleges and universities.

The next step is to offer a feasible strategy for a new governor to consider.

Identifying possible savings

Silver Oak Solutions has completed a six-week assessment of the state's spending for goods and services. The firm identified potential savings opportunities of between \$94 million and \$204 million. More than half of these are potential high-priority candidates for immediate action through enterprise-wide strategic sourcing efforts in the 2005-07 biennium.

The ability to realize these savings next biennium will depend on how quickly the state starts to address its spending in these areas, participation of agencies and universities, and the adoption rate of improved contracts and purchasing methods.

Categories for phase 1 savings opportunities – for \$70 million to \$128 million – include:

- ◆ Information technology professional services.
- ◆ Computer hardware and peripherals.
- ◆ Commercial print.
- ◆ Office supplies.
- ◆ Fuel.
- ◆ Office equipment.
- ◆ Telecommunications, networking equipment and maintenance.

Eleven potential phase 2 categories were also identified. Biennium savings for these categories are between \$24 million and \$76 million. During their review, representatives from Silver Oak Solutions interviewed more than 50 purchasing officials at 12 state agencies and universities.

Other highlights from the assessment

- ◆ Fourteen separate fiscal year 2004 purchasing databases have been blended into one master database to support the analysis. This will help all parties get a better understanding of state spending.
- ◆ 13,538 expenditure categories used by state government have been grouped into 103 categories. This helps identify the highest opportunities for savings.

Stakeholder concerns

People are asking whether strategic sourcing would be any more efficient than current purchasing practices and if it can actually result in realistic and sustainable savings. Good question! The answer is a firm yes – if done properly. Our success depends on a collaborative effort and a disciplined approach. That is why project leaders will continue to keep you updated and solicit your comments.

Next steps

In early January, the lead agencies will complete an action plan for the new governor. A summary of that recommended plan will be presented to Executive Cabinet and to agency deputy directors at their January 6 meeting. On or shortly after the new governor's inauguration, we will update state agencies on the governor's decision on moving forward and lay out next steps.

Who's involved?

GA, DIS, OFM and the Department of Printing are leading this project. They will be working with Silver Oak Solutions of San Francisco to assess how executive-level agencies and colleges and universities in the state currently spend money for goods, services, supplies and technology equipment. The firm has extensive experience working with nine other state governments and a variety of businesses to help them achieve significant savings.

For more information about Silver Oak Solutions and their approach, visit the firm's web site: www.silveroaksolutions.com/site/home.php